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SUBJECT: REMITTANCES LIKELY TO REMAIN HIGH, BUT MAY TRAVEL LESS  
OFTEN VIA HAWALA

**¶11.** (SBU) Summary: In a series of meetings in Karachi and Islamabad in early August, the Treasury Attach, Consulate EconOff, and EconOff, spoke to several Pakistani government and private sector officials to discuss Pakistan's steadily growing remittance levels. The State Bank of Pakistan reported that measured remittance levels for July 2009 reached a record \$747 million, continuing the positive trend of the past several months. State Bank of Pakistan (SBP) officials largely attribute this increase to a diversion of remittances away from hawalas into SBP -licensed banks and money service businesses. For several months, the Federal Investigation Agency (FIA), in close coordination with the SBP, has been shutting down illegal exchange companies. End Summary.

#### The Countercyclical Affect of Remittances

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**¶12.** (SBU) In an August 4 meeting in Karachi, the CEOs of two of the largest licensed money service businesses in Pakistan, Haji Haroon of the H&H Exchange Company, and Ramzan Ali, of the Wall Street Exchange Company stated that despite a global economic downturn, both men expected to see remittances remain robust. They explained that individuals overseas will often send more money back to family members in Pakistan when the economy is doing badly. They described those remittances as a "social welfare mechanism" to compensate for lost jobs or slow economy. If Pakistan's economy continues to remain sluggish in the months ahead, both men expected to see more, not fewer remittances. However, when it came to doing wire transfers with Afghanistan, both men asserted they steer their clients away from money service businesses in Afghanistan due to perceived compliance risks. Furthermore, there was little faith in the regulatory regime in Afghanistan, and they did not know which Afghan money service businesses were legitimate or illegitimate in the eyes of the SBP.

#### Work with the Banks to Find Solutions

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**¶13.** (SBU) In an August 3 meeting in Karachi, SBP Governor Salim Raza confessed that high remittance levels are off setting falling exports and slumping foreign direct investment (FDI) in the current account. In subsequent August 5 meeting, Deputy SBP Governor Yaseen Anwar explained that despite a global economic downturn, measured remittance levels have increased approximately 23% between January-June 2009 from the same period last year because of the SBP's ability to capture previously unreported remittances.

¶4. (SBU) Anwar cited two major reasons for this phenomenon. First, the SBP began a public awareness campaign to encourage overseas workers to use overseas branches of Pakistani banks to send their remittances. As part of this program, the banks promised to reduce both the time to clear a transaction and the high costs to process the transaction. Appreciating the continued attraction for small money service businesses among overseas workers, Anwar explained that the SBP also plans to develop a pilot program to bundle remittances from legitimate overseas money service businesses into real time gross settlements (RTGS) to banks in Pakistan. (Note: RTGS is a system for large-value interbank funds transfers, that allows the continuous settlement of payments on an individual order basis without netting debits with credits across the books of a central bank.)

Law Enforcement Action Pushes Remittances UP

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¶5. (SBU) However, the main reason according to Anwar and Governor Salim Raza for the increase in measured remittances was a Federal Investigation Agency (FIA) campaign begun several months ago to shut down hawalas throughout Pakistan (Note: In Pakistan, the term "hawala" is used exclusively to mean illegally operating money service businesses. End Note). The FIA seems to be building upon the success of this campaign. When transferring large sums of money from outside Pakistan, hawalas are often better than couriers since the former can more easily handle larger sums of cash and in a timelier manner. In early-August, the FIA shut down the Lahore-based Zarco Company Exchange, and arrested its chief executive officer. According to media reports, the Zarco Company

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conducted over \$303 million in unreported transactions in 2008.

¶6. (SBU) In an August 11 meeting in Islamabad, FIA Director General Tariq Khosa detailed a plan for FIA's Economic Crime Wing to establish a joint task force with the SBP to conduct further investigations of money service businesses. In addition to not reporting all transactions to the SBP, the FIA and SBP have discovered from past investigations that some registered money service businesses are illegally doing business with hawalas inside and outside of Pakistan.

Mobile Banking - a Possible Trend?

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¶7. (SBU) In press reports, Pakistan's Minister for Overseas Pakistanis Farooq Sattar said before a Senate Committee that the GOP intends to launch a process that will ultimately have overseas workers send remittances via mobile phone. In an August 6 meeting, the President of the National Bank of Pakistan told Treasury Attach and Consulate EconOff that to capture overseas remittances via mobile banking could be very promising. (Note: most mobile payment services use a phone as an access device to initiate and authenticate transactions from an existing bank account or payment card. End Comment)

¶8. (SBU) Comment: In addition to the SBP and FIA, Finance Minister Shaukat Tarin is a major proponent of the hawala crackdown since the increase in measured remittance inflows are helping the current account. Tarin told Treasury Attaché in mid-June in Islamabad that these enforcement actions by the SBP and FIA were his "insurance" against declines in the external sector of the economy. In addition to the macroeconomic benefits, hawala crackdowns contribute significantly to improving Pakistan's anti-money laundering and countering the finance of terrorism (AML/CFT) regime. Furthermore, this plan by the government seems to address a delicate recommendation from the World Bank and Asia Pacific Group: close illegal money service businesses in Pakistan while at the same time paying more attention to the incentives structures of these businesses, so as to properly balance the need for formalization with the risk of overregulation.

PATTERSON